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WHITE HOUSE FOR VICE PRESIDENT CHENEY FROM AMBASSADOR GRAPPO

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TAGS: [PARM](#) [PHUM](#) [PGOV](#) [PREL](#) [PTER](#) [KDEM](#) [KNNP](#) [KWMN](#) [MASS](#)
MNUC, ECON, ENRG, ETRD, OVIP, MU
SUBJECT: SCENESETTER FOR VICE PRESIDENT CHENEY'S VISIT TO
OMAN

Classified By: Ambassador Gary A. Grappo for Reasons 1.4 (b, d)

Summary

¶1. (C) Mr. Vice President: Embassy Muscat and my wife and I warmly welcome you and Mrs. Cheney back to Oman. As one of our oldest friends in the Middle East -- the Omanis refer to their relationship with us as "strategic" -- Oman remains a strong and trusted U.S. ally. The Sultan will be pleased to see you and to hear your thoughts on a variety of subjects. Your visit here will also allow us an opportunity to help gauge the Sultan's views on important regional issues.

¶2. (C) While the U.S. and Oman enjoy close relations, we do not necessarily see eye-to-eye on all things, most notably on Iran. Oman's leadership recognizes and is deeply concerned about Iran's nuclear activities and its destabilizing meddling in the region, but its perspective on the threat posed by Tehran differs from those of the USG and its GCC partners. Omani government officials see direct talks with Tehran without preconditions or sanctions as the best way to mitigate Iranian threats. Iraq, the Israel-Palestinian conflict, Lebanon and the future stability of Yemen are other key regional concerns for Oman.

¶3. (C) U.S. security and military cooperation with Oman is robust. The landmark sale of F-16 aircraft in 2002 helped break Oman's traditional reliance on Great Britain for its defense procurement needs. Under the U.S.-Oman Base Access Agreement, unprecedented in the Gulf when first signed in 1980, the Omanis have provided us with consistent use of their military facilities, including for storage of approximately \$10 billion in U.S. War Reserve Materials. Recent sharp reductions in Foreign Military Financing (FMF) for Oman, however, could adversely impact opportunities for further military engagement.

¶4. (C) Domestically, Oman continues to enjoy internal stability and economic prosperity. National elections in October 2007 for the lower house of Oman's bicameral advisory body (Majlis al-Shura) went smoothly with higher than expected voter turnout, although no female candidates were elected. Oman's economy is enjoying double-digit growth; strong revenue from oil sales has provided funds for ambitious industrialization projects to help diversify the economy. Oil production continues to decline, however, and rising inflation and living costs are generating public grumbling. The U.S.-Oman Free Trade Agreement (FTA), signed by both the President and the Sultan in 2006, still has not

been implemented due to Omani foot-dragging on needed legislation and concerns over telecommunications liberalization. We hope that your visit may help prompt the Omanis to take the final steps needed for the FTA to come into force. End Summary.

Iran

15. (C) Oman maintains close, cordial relations with Iran and is careful not to antagonize the regime in Tehran. Oman probably has the best relationship of any Arab state with Tehran and unlike its GCC counterparts, currently has no bilateral issues with Iran. Iranian President Ahmadinejad visited Muscat and met with the Sultan in May 2007. The Omani government strongly seeks to avoid even the suggestion of friction with Iran, preferring dialogue with its neighbor to the north on maritime security and other shared interests -- including possibly importing Iranian gas to fuel Oman's expanding industrial needs. Apart from a few subjects, however, the Oman-Iran relationship is largely non-substantive and there is little in the way of meaningful cooperation (and only limited trade) between the two countries. Oman's strategic relationship instead clearly lies with the United States (and the U.K.), and it regularly shares its insights and observations concerning Iran with us.

16. (C) While neither the political nor military leadership wants to describe Iran as a threat to Oman's security, Omani officials are disturbed by Iran's growing influence in the region and by its inability to come to terms with the U.S. and other P5 members over its nuclear program. In addition to the significantly increased instability a nuclear-capable Iran would mean for the region, Omanis are anxious about

Tehran's meddling and trouble-making in other states, particularly Iraq and Lebanon, and its opposition to efforts to end the Israeli-Palestinian conflict. They also worry about the long-term consequences if this behavior is left unchecked. Moreover, the January incident between IRGC and U.S. naval vessels in the Strait of Hormuz highlighted to Omani officials the vulnerability of this strategic chokepoint to unpredictable Iranian behavior. Despite these concerns, senior Omani government officials repeatedly advise us that sanctions against Iran are counter-productive and may strengthen hard-line attitudes in Tehran. They instead advise dialogue with Tehran without preconditions to mitigate Iranian threats. Oman has used its ties with Tehran to urge Iran to adopt a more conciliatory approach in addressing Western concerns over its nuclear activities and destabilizing actions in the region.

17. (S/NF) Omani leaders have a unique view of potential Iranian military action in that they do not believe Iran would attack GCC countries with missiles in response to a military strike staged in the Gulf. Instead, they see asymmetrical, terrorist operations conducted by Iran against Gulf states, including U.S. targets in these states, as more likely. To this end, the Omanis are not keen on acquiring Patriot missiles as proposed by the U.S. in the Gulf Security Dialogue, and are more interested in Shared Early Warning (SEW) and HIMARS/ATACMS, which they view as the most credible deterrent options.

Iraq

18. (S) Though not a major financial donor, Oman supports USG efforts to promote security and political stability in Iraq. Prime Minister Maliki visited Muscat in April 2007 for talks with the Sultan and senior officials. The Omani government forgave all Iraqi debt and has publicly condemned several high-profile terrorist attacks. Oman is not an origin or transit country for fighters or illegal funds destined for Iraq.

19. (C) The Omani leadership remains deeply concerned with

Iraq's future. They remain particularly worried that extremist and sectarian violence in Iraq could spill over into other states in the region. Though encouraged by the recent improvement in security in Iraq brought on by the U.S. troop surge, Omani government officials harbor doubts about the reliability of Iraq's leadership and whether it can effectively control the country. They continue to assert that military force alone will not bring stability to Iraq. Senior Omanis also doubt that Iraqi Prime Minister Maliki is interested in, and/or capable of, pursuing reconciliation with Sunni leaders, which they see as critical to ending the insurgency. Senior Omani military officers and other officials, including the Sultan, support a continued U.S. military presence in Iraq until security is established and Iraqi forces and police are able to preserve security and stability.

Middle East Peace

¶10. (C) The Israeli-Palestinian conflict remains a matter of considerable interest, both within the leadership and among the Omani public. As elsewhere in the Arab world, news reports of civilian casualties from recent Israeli military strikes in Gaza have generated strong public condemnation. Oman closed the Israeli Trade Mission in Muscat in 2000 during the Second Intifada, but maintains good and regular (though non-public) communications with Israeli officials, including at the Foreign Minister level.

¶11. (C) The Omani government continues to play its traditional role of quiet support for efforts to peacefully resolve the Israeli-Palestinian conflict based on the President's two-state vision. Oman endorsed and enthusiastically participated at the ministerial level in the November 2007 Annapolis Conference to promote Middle East peace. Omani officials continually warn, however, that the U.S. must increase pressure on Israel to take meaningful action on settlements and to offer genuine concessions if a peace deal is to be achieved by the end of this year. Oman supports Palestinian President Abbas in his struggle with Hamas and pledged approximately \$30 million at the December 2007 Paris Donors Conference for education and health

projects in the West Bank. It has declined to provide direct budgetary support for the Palestinian Authority.

Lebanon

¶12. (C) Oman backs the elected government of Lebanese Prime Minister Siniora, who met with the Sultan in Muscat in January 2007. It also recognizes Syrian complicity in the crisis in Beirut over the failure to select a new Lebanese president. Nevertheless, true to its commitment to peaceful dialogue, Oman still hopes that Damascus and Lebanese opposition groups can be coaxed into reaching a solution to the impasse. The Omani leadership has yet to decide its level of representation at the upcoming Arab League (AL) summit in Damascus, although the Sultan has ruled out attending. The foreign minister recently told me that the Lebanese crisis and attendant doubts over the AL summit threaten to fracture the AL and broader Arab unity. The Omani government deposited \$50 million in the Central Bank of Lebanon in 2007 to fund reconstruction projects, but has not responded to requests for financial assistance for the international Hariri tribunal.

Bilateral Security Relations

¶13. (C) Oman is of vital geo-strategic importance to the U.S., many of our allies and the global economy. At the entrance to the Strait of Hormuz, Oman presides over all the shipping lanes in this critical chokepoint. In 1980, Oman decided to enter into a formal security partnership with the U.S. through a Base Access Agreement, which was unprecedented in the Gulf at the time. Since then, Oman has fully

supported virtually all access, basing and over-flight requests we have made. Our use of Omani military facilities proved invaluable during both OEF and OIF. U.S. CENTAF maintains War Reserve Materials (WRM) sites at Seeb (Muscat) International Airport, Masirah Island and Thumrait, which house almost USD 10 billion in weapons, equipment, and supplies to support U.S. military operations in the Middle East and South Asia. The closure of the military portion of Seeb airport will be a phased reduction starting in 2010 and completed by 2012. Oman is constructing a new airbase at al-Musanah, close to the northern port of Sohar, and CENTAF hopes to build a WRM site at this facility. The Base Access Agreement is up for renewal in 2010; the U.S. will ask to expand its scope to include Sohar port in the north of Oman and the al-Musanah base.

Counter-Terrorism Efforts

¶14. (S/NF) The Omani security and intelligence services are professional, reasonably well-funded and motivated. Oman is not a regional or offshore financial center and, accordingly, does not have significant money laundering or terrorist financing problems. To date, Oman has never experienced, or been used to stage, a terrorist attack or incident (although members of extremist groups have been arrested). However, with its relatively open and welcoming society and increasing numbers of Western tourists, Oman remains vulnerable to terrorist attacks.

¶15. (C) Border control is one of Oman's top priorities and an increasing area of bilateral cooperation with the U.S. Oman's long coastline and relatively open borders in some inland areas remain vulnerable to smugglers, drug traffickers, and - potentially - terrorists. The Royal Oman Police Coast Guard regularly detains smugglers and illegal migrant workers, usually along Oman's northern coast between Muscat and Sohar. The majority of illegal immigrants are from Pakistan and Afghanistan, who often travel overland to Iran and then board boats to cross the Gulf of Oman. Some of those detained are now coming from the former Soviet republics in Central Asia; more Somalis are allegedly attempting to enter Oman via Yemen. One unofficial estimate placed the number of illegal immigrants apprehended in 2006 at over 25,000, although the numbers reportedly declined in 2007.

¶16. (C) The Embassy's Office of Military Cooperation (OMC) and Export Control and Related Border Security Assistance (EXBS) program work with the various military and police services to enhance Oman's ability to both monitor and enforce its borders. Furthermore, Oman is an active

participant in two-port/cargo security programs sponsored by the USG: the Secure Freight Initiative (administered by the Department of Homeland Security), which pre-screens containerized cargo being shipped to the U.S.; and the Department of Energy's MegaPorts Initiative, which is working to install equipment at Omani ports to identify nuclear material.

Military Relations and Sales

¶17. (C) The U.S. maintains strong military-to-military relations with Oman. There is a robust joint exercise schedule each year, and almost 30 Omani military members travel annually to the U.S. under the International Military Education & Training (IMET) program. Regarding arms sales, the U.S. has made significant progress in breaking Oman's traditional reliance on Great Britain for its defense procurement needs, most notably illustrated by Oman's purchase of F-16 aircraft in 2002. However, declining U.S. Foreign Military Financing (FMF) poses a challenge for the modernization of Oman's military, as well as for the future of U.S. weapons sales to Oman. From a high of \$24.85 million in FY04, the FY08 FMF budget request for Oman was first reduced to \$10.10 million, and then again to \$4.4 million. The Omanis have not yet been officially notified of this

reduction and we anticipate a very negative reaction, as well as questioning by the Omanis whether this is intended as a political message.

¶18. (S) There currently are numerous Foreign Military Sales (FMS) cases in process, including F-16 aircraft. There are now 11 F-16s in Oman, with one more scheduled for delivery in summer 2008. However, technical problems with the aircraft's electronic warfare suite and radar system have not been resolved. Oman is considering purchasing a second squadron of F-16s in the future, but this decision will likely remain on hold until the current airplanes are fully operational. Regarding future sales, Oman has made ATACMS/HIMARS a top priority due to its strong deterrent capability. Availability and funding issues (Oman has expressed a need for "creative financing") for Oman's proposed purchase of ATACMS are currently under review by the inter-agency process in Washington.

Domestic Politics

¶19. (C) As a result of the strong leadership and pro-Western tilt of Sultan Qaboos, the country's trade and maritime heritage, and generally tolerant religious views, Omanis are known for openness and moderation. The Sultan is considered an enlightened, benevolent ruler who has won the firm allegiance of all Omani tribal groups. His commitment to tolerance and opposition to division among religious or ethnic lines have resulted in the absence of sectarian or factional conflict. In 1996, the Sultan promulgated Oman's "Basic Law" which defines certain rights and privileges for all citizens and enshrines the role of the Majlis Oman, a two-chamber advisory body with severely circumscribed legislative functions. Members of the upper house (the Majlis al-Dawla) are appointed by the Sultan; members of the lower house (the Majlis al-Shura) are directly elected by universal suffrage every four years. While the Majlis Oman can review and comment on draft laws and budgets, it cannot initiate or veto legislation. Political parties and interest groups are banned.

¶20. (C) Turn out was higher than expected in Oman's October 27, 2007 national polls for the Majlis al-Shura, with over 62% of registered voters casting ballots in a generally free and fair election. Many Omanis, however, chose not to register, in part due to perceptions that the Majlis is largely ineffective. Omanis continued to vote along tribal lines, although this practice was reportedly less pronounced than in the 2003 elections. Newcomers won more than half of the 84 seats; however, none of the approximately 20 female candidates won their electoral bids. The Sultan was disappointed with this outcome and, in response, appointed 14 women to service in the 70 member Majlis al-Dawla (the upper chamber). To assist Oman's domestic reform efforts, the U.S. has partnered with Oman through the Middle East Partnership Initiative (MEPI) to institute programs focusing on judicial, educational, economic and political reform, as well as women's empowerment. A proposed MEPI campaign training

school for female candidates prior to the 2007 polls was scrapped by the government due to internal sensitivities; the Embassy is hopeful that this program can be resurrected prior to the next national elections.

Trafficking in Persons

¶21. (C) While the U.S.-Oman relationship has generally been free of tension, the Omani government reacted strongly to its designation as a Tier 3 country in the State Department's 2006 Trafficking in Persons (TIP) report. Despite Embassy assertions to the contrary, some Omani officials -- who have much to learn about the global TIP problem -- questioned whether there was a political reason behind this designation. With the assistance of a USG-funded American expert, Oman has since drafted a comprehensive anti-TIP law that expressly defines and criminalizes trafficking and establishes a

national committee to coordinate anti-TIP initiatives. Passage of the law would represent a significant step forward in addressing U.S. concerns, but may not be enough to remove Oman from Tier 3.

Economic and Energy Update

¶22. (C) Oman's economy is based primarily on revenues derived from petroleum and natural gas, which accounted for 79% of the government's income in 2007. Proven oil reserves are estimated at 4.8 billion barrels, though Ministry of Oil and Gas officials are optimistic that over 35 billion barrels remain to be recovered. Skeptics suggest a significantly lower figure. The main oil producer is Petroleum Development Oman (PDO), a majority government-owned company that partners with Royal Dutch Shell. It controls approximately 90 percent of the reserves and the lion's share of total production. With average daily production falling from 956,000 barrels per day (bpd) in 2001 to 710,000 bpd in 2007, the government has opened the sector to greater foreign participation in a bid to increase output. U.S.-based Occidental Petroleum, the second largest producer, is investing \$3 billion in enhanced oil recovery efforts for its recently acquired concessions. Also, BP and British Gas have recently been invited into the country in an effort to tap Oman's gas and oil potential.

¶23. (C) Despite declining oil production, high oil prices over the past several years have led to solid Omani budget surpluses and GDP growth. Oman's economy grew over 11% in 2007 and produced an estimated \$4.5 billion surplus, which the government will use in part to improve oil production capabilities and locate additional gas reserves. In addition, the government is using its revenues to strengthen the economy in the long-run by shoring up its pension fund, reducing its debt, and augmenting a number of reserve funds. Flush oil revenues also have allowed the government to proceed with plans to diversify Oman's economy through industrialization, port infrastructure expansion, and tourism development. The largest single industrial investment target is the port city of Sohar, which has witnessed over \$12 billion in government investment alone. Since domestic gas supply concerns are dampening the government's industrialization efforts, Oman is looking to Iran and Qatar as potential suppliers; discussions with Iran to jointly develop the Hinjam/Bukha field in the Gulf are ongoing.

¶24. (C) Inflation and the rising cost of living have emerged as significant concerns in Oman, evoking much public grumbling. Prices for many consumer goods, including basic staples, have risen sharply. Booming real estate values have led to skyrocketing rents and made home ownership much less affordable. Significant government spending on various construction projects, and the currency peg to the declining dollar, have contributed to rapid increases in the prices of building materials and consumables. In December 2007, the government estimated inflation at over eight percent) the highest level in 16 years. In response, the Sultan announced a number of stabilization measures in February, including an increase in public sector salaries with the largest wage hikes (43%) for those at the bottom of the pay scale.

Free Trade Initiatives

¶25. (C) To encourage further foreign investment and develop export markets, the government is strengthening its trade

relationships through the negotiation of free trade agreements with a number of strategic partners, particularly in Asia. In October 2006, President Bush and the Sultan signed the U.S.-Oman Free Trade Agreement (FTA), but implementation remains pending revisions to Oman's intellectual property, government procurement, and telecommunications licensing laws and regulations. Omani officials acknowledge that they are responsible for most of the remaining issues delaying FTA implementation. While the Embassy is hopeful that Oman's slow legal review process will

clear the way for adoption of final measures in the next few months, further movement on telecommunications liberalization (the substantive impediment to implementation) will depend on the speed by which the government identifies a strategic partner for Omantel, its fixed-line monopoly carrier.

Final Comments; Sultan Qaboos

¶26. (S/NF) Through a close advisor, the Sultan has communicated that he very much looks forward to resuming his dialog with you. While he continues to maintain a low profile both regionally and domestically -- even Omanis were heard criticizing his invisibility in the wake of last June's surprising and destructive cyclone -- the Sultan keeps in close touch with the functions of his government and on top of regional and international issues. For example, in a discussion I had with him in December, he explained to me that he had returned the draft of the new government procurement law to the relevant ministry because it had given too much authority for contract decisions to the tender board chief. Similarly, in his meeting with CENTCOM Commander Admiral Fallon last month, the Sultan asked detailed questions about the factional conflicts in Iraq and the recent Iraqi budget. By all accounts and appearances, the Sultan's health is good.

¶27. (S/NF) Sultan Qaboos recently completed a shake-up in his internal security service leadership and navy, and rumors circulate that further changes may be in the offing, including the departure of his long-time security advisor and Chief of the Supreme Commander's Office, General Ali Majid al-Ma'amari. Ali Majid, a stalwart confidant and advisor to the Sultan for nearly 30 years, returned from Germany in January following surgery, allegedly for arteriosclerosis. His rumored retirement may be due to continuing health problems. His departure would mark a significant change in Oman's leadership line-up.

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